Superior Plus Corp. (2024 Q3 Results)
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Corporate Speakers:

- Chris Lichtenheldt; Superior Plus; Vice President, Investor Relations
- Allan MacDonald; Superior Plus; President and Chief Executive Officer
- Grier Colter; Superior Plus; Chief Financial Officer

Participants:

- Gary Ho; Desjardins Capital Markets; Analyst
- Robert Catellier; CIBC Capital Markets; Analyst
- Daryl Young; Stifel; Analyst
- Patrick Kenny; NBF; Analyst
- Aaron MacNeil; TD Cowen; Analyst
- Nelson Ng; RBC Capital Markets; Analyst

PRESENTATION

Operator^ Thank you for standing by. And welcome to the Superior Plus Third Quarter 2024 Results Conference Call. (Operator Instructions) As a reminder, today's program is being recorded. And now I'd like to introduce your host for today's program, Chris Lichtenheldt, Vice President, Investor Relations. Please go ahead, sir.

Chris Lichtenheldt^ Thank you, Jonathan. Good morning, everyone. And welcome to the Superior Plus' Conference Call and Webcast to review our 2024 third quarter results.

On the call today have: Allan MacDonald, President and CEO; and Grier Colter, Chief Financial Officer. For this morning's call Allan and Grier will begin with their prepared remarks, and then we will open up for questions.

Listeners are reminded that some of the comments made today will be forward-looking in nature and are based on Superior's current expectations, estimates, judgments, projections and risks. Further, some of the information provided refers to non-GAAP measures.

Please refer to Superior's continuous disclosure documents available on SEDAR+ and our website. The dollar amounts discussed on today's call are expressed in U.S. dollars unless otherwise noted. I'll now turn the call over to Allan.

Allan MacDonald^ Thanks, Chris. Good morning, everyone. And thanks for joining our Q3 earnings call. Before I jump in, I'd like to welcome Chris Lichtenheldt, our new VP of Investor Relations. Chris joined us about two months ago and is a seasoned IR veteran who's also had experience on both the buy and sell side.

We're really pleased to welcome Chris to the team. So welcome. Today is obviously a significant day for Superior Plus, and I'd like to take a few moments to provide some context about our strategy, our future and our plans to transform the company.

I use the word transform for good reason because that's the journey we've been on. When I joined Superior back in April of last year, it was immediately apparent that this was a company with a lot of potential, but realizing that potential meant tackling some structural challenges. And with any transformation, structural challenges are the most difficult and time-consuming to overcome.

In discussions about the long-term future of Superior Plus with our shareholders and with many of you, I heard familiar themes.

What's the future of propane? And is there a path to growing the core business organically? How will you invest for growth with the current leverage and dividend obligations? Do you have the right presence in emerging energy markets like CNG, power generations and renewables like RNG and hydrogen?

And finally, do you have the team and expertise to make it all happen? These questions have guided our focus over the past year, and I'm pleased to tell you all today, we will provide you with the first look at our strategy to transform Superior Plus into the company we all believe it could and should be.

So with this in mind, let me provide some context in terms of how we plan to raise the bar and transform Superior Plus moving forward with a more profitable, modernized business model and a stronger, more flexible capital structure.

But before I discuss our future, let's start with where we were. Our company's history includes a long track record of consolidating the North American propane business through acquisitions.

And today, we proudly operate as one of the leaders in the market across North America.

Our most recent acquisition, Certarus, gave us even broader exposure to growth opportunities and position Superior Plus as the leader in the CNG energy sector at a time of unprecedented demand for alternative and local lower carbon energy solutions. Despite the addition of Certarus, our challenges remained.

We were structured to integrate acquisitions and our core propane assets were not delivering substantial organic growth. While we acquired good assets, we need to organize and operate them differently.

Our propane business span from producers all the way to commercial customers and individual households across North America, but we still operated like a regional company and the performance reflected this.

Our job was to take advantage of this incredible market footprint and customer base and transform our operating model to drive sustainable growth and profitability. And that's exactly what we are doing, which leads us to where we are today with a clear path -- plan to move Superior Plus forward.

Over the past 18 months, we've initiated key organizational changes including: one, retooled -- retooling our leadership with an experienced team focused on operational excellence with a mix of both internal and external talent; two, we have significantly revised our compensation structure to drive alignment between management's priorities and those of our shareholders; three, we've made the deliberate decision to shift away from growing through acquisition to a more balanced and disciplined capital allocation approach with a focus on shareholder returns and growing the business organically; and finally, as with any successful operations-focused organization, we are embracing performance management.

Our new company-wide balanced scorecard has established aggressive performance objectives for each aspect of our business.

And as we all know what gets measured gets improved. These decisions were critical enablers of our transformation. And while we are in the early innings of reaping the benefits from the work we put in place, I want to share more with you about where we are going. To transform Superior Plus to becoming a best-in-class energy solutions provider, there are three main priorities we've identified as critical to our success.

First, I'm excited to introduce Superior Delivers, which is what we've named our collective efforts to transform our propane business to drive more sustainable, profitable growth.

Superior Delivers is a productivity initiative and a growth initiative. In fact, it's an everything initiative, a true transformation of the Propane operating model.

We have been meticulously working on this transformation program over the last eight months, and it comes after an exhaustive review of our underlying business assets, operating model and competitive advantages.

Today we have over 100 specific initiatives in various stages of planning and execution that are all centered around three key areas of the business: first, growing our customer base profitably and retaining our customers for life; second, becoming the lowest cost operator in the industry; and third, allocating our capital effectively and generating best-in-class utilization of every dollar.

To do this, we had to shift our thinking away from inorganic growth towards becoming customer-centric, putting our customers at the core of every decision we make, data-driven, making decisions with better insights than ever before and operationally excellent, holding ourselves accountable to ambitious targets and achieving measurable results in everything that we do.

Over the next three years, as we continue to execute Superior Delivers, our vision is to emerge as the leader in attracting and retaining profitable customers for life.

We will be the low-cost operator and truly use our scale as a competitive advantage with a capital efficiency far beyond historical levels.

While we are announcing this initiative today, we aren't starting today.

Superior Delivers has been in progress for months now. And while the road will be long, we have already had some encouraging early wins and the changes we have made to the business will ensure we have the tools and capabilities to continue to execute with haste.

By early 2025, we anticipate our propane business will begin realizing the optimization improvements with a full realization of at least $50 million of incremental EBITDA by the end of 2027.

Second, with Certarus, we continue to believe there is excellent long-term opportunity as the industry shifts and new demand for alternate energy solutions arise. There is tremendous excitement about the forecasted growth in demand for energy, and Certarus is well positioned to remain the leader in this space.

We are cautiously evaluating the best opportunities including expansion and introducing new offerings to capitalize on prospects beyond the well site.

While we are continuing to invest in MSUs, we're moderating our pace of investment while we assess new markets to ensure optimized returns on our capital and to maximize financial flexibility and free cash flow.

Now this is the foreseeable evolution for Certarus.

As with any emerging businesses, opportunities shift and leadership needs to make sure the business continues to adapt to changing market dynamics. Third, as announced this morning, we have made the strategic decision to reduce our dividend by 75%.

Since our time as an income trust many years ago, Superior Plus has allocated a disproportionate amount of capital towards supporting our dividend. This has limited our financial flexibility to invest more substantially in other shareholder value-creating opportunities.

We see the transformation of Superior as all-encompassing; and creating financial flexibility is the final key element. A significant decision? Yes, but one we feel is critical in positioning the company for long-term success. With this decision, we immediately benefit from approximately CAD 135 million in additional available free cash flow, which can be directed to short-term opportunities to deliver value to our shareholders by investing and buying back stock.

It's an exciting day for Superior, and I'm pleased to be able to share this vision with you, and it's just the beginning.

That's why we're also announcing our plans to host an Investor Day in the first week of April 2025.

During this event, we'll provide deeper insights into our plans for Superior Delivers, Certarus and our financial strategy, along with an opportunity to meet our team and hear directly from our leaders about our progress.

In the meantime, we'll continue to do what we've been doing, challenging ourselves and the business, focusing on execution and allocating our capital with discipline.

Now with all that said, I'd like to comment briefly on our Q3 results before passing it over to Grier.

Our third quarter is a seasonally lower quarter -- lower contribution quarter for us. We're nonetheless pleased with our performance.

Our propane business performed in line with our expectations, and Certarus delivered a strong quarter with 15% growth in EBITDA despite increased competitive pressures. And with that, I'll turn things over to Grier.

Grier Colter^ Thank you, Allan. And good morning, everyone. First, I'd like to elaborate on Allan's remarks about our approach to capital allocation. We continue to be very focused on shareholder returns and effective allocation of the company's cash flow.

Over time, it became clear that the market was not giving us value for the dividend we are paying and that this was not an optimal use of our capital. The change to reduce our dividend by 75% provide us an opportunity to shift our focus to repurchasing our shares while still maintaining an attractive dividend.

The decision provides an additional CAD 135 million annually to buy our stock at attractive levels, and we are confident that this will provide better return to our shareholders, particularly when considering the prospects for the propane businesses as we execute Superior Delivers in addition to the future potential for our CNG, RNG and hydrogen business.

The shift from dividends to share repurchases balances our approach to capital allocation. And consistent with our previous messaging, we remain committed to investing in our businesses and delevering the balance sheet, provide additional flexibility when contemplating the pace of delevering and when considering future growth opportunities, both organic and inorganic.

Before I get into the Q3 results, I'll remind everyone that the following dollar figures are in U.S. dollars as we completed our transition on reporting currency beginning in Q1.

Overall, the business generated $17.4 million of adjusted EBITDA in the third quarter, which represents a decrease of $1.2 million over Q3 2023. The majority of this decrease is a result of lower adjusted EBITDA in the propane business, partly offset by a $4 million increase at Certarus.

Our third quarter net loss of $62 million was an improvement of $18.3 million compared to the prior year quarter. The improvement is primarily due to higher income tax recovery and lower transaction, restructuring and other costs.

Now turning to the businesses. Starting with propane. In aggregate, these businesses landed roughly in line with our expectations. The U.S. propane business had a good quarter given the strong results and higher tank levels coming out of Q1. Adjusted EBITDA of negative $7.9 million was $3.3 million lower than the prior year quarter.

The Canadian propane business produced $1 million of adjusted EBITDA in the third quarter, a decrease of $2.2 million versus Q3 2023 and was primarily driven by the divestiture of the Northern Ontario assets in the prior year and lower sales volumes due to warmer weather.

The wholesale business generated adjusted EBITDA of $1.8 million in the third quarter, an increase of $600,000 compared to the prior year quarter, primarily due to efficiency in the business. And moving to Certarus. The business produced adjusted EBITDA in the third quarter of $30.3 million, which represents a 15% increase compared to the prior year quarter, which is primarily due to a higher MSU base, driving a 24% increase in volumes compared to the prior year quarter and partly offset by tighter margins.

Now turning to corporate results and leverage. Corporate operating costs for the third quarter were $7.8 million, which was roughly in line with the prior year quarter. Our leverage ratio at September 30, 2024, was 4.0x.

As you will recall Q3 is historically a higher leverage quarter due to seasonally lower cash flow and higher working capital. Lower year-to-date EBITDA has caused leverage to remain about 1/10 of a turn higher than we expected.

Over the remainder of 2024, we now expect leverage to remain closer to 4.0x as we commence our share repurchase program. Over the longer term, we remain focused on our 3.0x target. Looking at 2024 guidance and expectations.

We are recalibrating our adjusted EBITDA growth expectation from approximately 5% to flat compared to 2023 pro forma adjusted EBITDA. This is primarily a result of year-to-date performance and not an indication of our estimate for Q4, which we are expecting to come in around our original budget. Growth in Propane is expected to come in at the low end of our original estimate, around 1%; and as discussed on the Q2 call we expect

Certarus to grow at 10%, both of these relative to our normalized 2023 results.

In line with the decrease in adjusted EBITDA growth expectations, we are also lowering our 2024 capital expenditure guidance from $230 million to $190 million. This reduction reflects improving capital efficiency in the propane businesses as we begin to see some of the benefits [of] Superior Delivers, coupled with a more cautious approach to capital spend at Certarus in light of evolving market dynamics. Lastly, as discussed earlier, the Board has approved a quarterly dividend of CAD 0.045 per share. And with that, I will turn the call back over for Q&A.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) And our first question for today comes from the line of Gary Ho from Desjardins Capital Markets.

Gary Ho^ Allan, you mentioned in your prepared remarks the various changes you've made internally such as retooling management comp structure. The one that intrigues me the most is you talked about performance management.

So what gets measured gets done.

So what are the key KPIs for yourself and kind of senior management team? Is it EBITDA growth?

Is it share price, free cash flow? Just wondering what are the key KPIs for the management team?

Allan MacDonald^ Those comments are in the context of the transformation in propane. And more generally they're kind of apply to the company, but also they're more -- very particular transformation of propane.

So let me kind of give you two versions of it. When we're thinking about the propane business, if you think about a company that was structured for being very adept at integrating acquisitions, you can imagine the types of things you'd be looking at synergies, systems, transitioning, things like that.

We're really thinking about three big buckets.

Our one bucket is about our ability to attract and retain customers.

So there, we're looking at customer number growth and customer retention, which is a level of granularity that really didn't exist in the previous iteration. And you could see why when we have this disparity of systems and bringing new companies on, all the records are obviously by default completely different.

Second thing is cost. How effectively are we managing our cost to serve, and by that, looking at the profitability of each of our customers.

And then finally, capital.

So when you look at the propane business, those are the big ones. When you look at the corporation, it's really about how effectively are we growing the business. The gentleman sitting across from me has been leading a lot of initiatives on our return on capital and making sure we have that balance right.

We're looking at the employee base.

We have the best, the most engaged and inspired workforce and all the talent we need that we're both developing internally and acquiring to make this all happen. And it's really those kind of parameters of the scorecard that give you that sustainable profitable growth.

So we're looking at how do we make these assets perform to the fullest extent of their potential. And then how are we investing to drive the best growth for shareholders, the best value growth for shareholders long term.

So this scorecard process is much more than a scorecard.

It's really about how you want to run the company going forward. And we like to think that we've got a really balanced approach. And the last aspect I'd comment on when it comes to performance management is, what's inherent in that is setting very specific performance targets and tying both compensation and performance valuation to that.

So we're setting high expectations of ourselves. They're not theoretical.

They're measurable. They're on our scorecard, and that's what we're working towards delivering.

Grier Colter^ Gary, if I could add, it's Grier. Just from a numeric standpoint, really focused, obviously on EBITDA, EBITDA per share, EBTDA per share and return on invested capital. Those would kind of be the four that I would throw out.

Gary Ho^ Okay. Perfect. And then just wanted to kind of dig into Superior Delivers a little bit, USD 50 million plus, are you able to kind of break that down in maybe key buckets, like how much is maybe cost cutting, how much is customer growth, et cetera? Maybe just give us a preview.

It is a bit of a wait until Investor Day in April.

And any material restructuring costs we should budget in as well?

Allan MacDonald^ Well let me take the first part, and I'll let Grier take the second part.

We're going to give you more detail in April. And I apologize for the date for all of you.

We -- once you get through blackout and the quarterly results that have you all occupied, you right into March break.

So for us, it's just kind of the most convenient time for all of you.

So that's why April. When you think about where it's coming from, it's three big buckets in terms of the cash generation.

It's the customer aspect, it's the cost aspect and then it's the capital asset rationalization and utilization. And we'll be able to give you some insight as to where it's coming from. Always -- it's always going to be a balance between being as transparent as we can and then protecting some competitive information.

I can tell you today that as I mentioned in my prepared remarks, we have this very meticulously detailed.

We've got over -- well I can tell you, we have 137 known initiatives that we're running down right now.

Some are already in execution phase. A number of others are in planning phase.

We have an approval meeting after this for three hours to go through a bunch.

So it's very well laid out internally, and we're going to do our best to give you as much transparency as we can in terms of where the money is coming from and how we're thinking about it.

So Grier, do you want to talk about the second part of Gary's question?

Grier Colter^ Yes. Just if I understand it right, like this is not about restructuring.

So no, I think this is more about the way we use our assets, getting -- maximizing the yield on what we've got, making sure that we've got the right asset base, whether we're talking physical locations, whether we're talking [trucks, tanks.] This is a big part of this.

It's using data for route optimization as an example.

It's how we price customers and using the data to more intelligently price customers. This is a lot -- this is not about cutting costs and cutting people.

So no, I think there would not be anything significant as far as we see right now.

Of course, we're going to go through this project, and we're going to learn stuff along the way.

But no, at this point, I wouldn't see anything significant.

We are working with a third party on this.

So there will be fees in connection with that, but no, there wouldn't be anything that we can see today on restructuring.

Gary Ho^ Perfect. And then maybe just my last question.

It sounds like you're pretty active with the buyback, and you've mentioned channeling that CAD 135 million dividend savings to it.

So at today's share price is roughly 10% of your shares outstanding.

So how long would you commit this to?

Is it a 1-year commitment? Or will you be continuing up to a certain share price or multiple? Any game plan in terms of level of buyback, not just kind of upcoming 12 months, but beyond?

Grier Colter^ Yes. Here's what I would say, it's Grier again. Yes. So the starting point is we will shift the difference in previous dividend to the new dividend that will all go to share repurchases.

In addition to that, I'd say in the short run, we'll be even more aggressive than that. And that's the rationale for moving the leverage target at year-end up about 2x to give us more flexibility to be more aggressive at these levels.

We think this is very good value for our shareholders. And so, we'll be even more aggressive than the run rate of the [state] dividend, if that makes any sense.

I think in terms of the longer strategy, at what level we're comfortable buying at, I'd say we see value for quite a ways here.

So I can't tell you exactly how long we see this to be a great value.

It will obviously depend on the way that the share price moves, but we've got quite a lot of runway here where we see incredible value in the shares.

So it will be for quite some time.

Operator^ And our next question comes from the line of Robert Catellier from CIBC Capital Markets.

Robert Catellier^ I just want to clarify, based on what I heard, it sounds like the Superior Delivers plan doesn't involve any new capital investment.

It's more about rationalizing capital, maximizing what you have.

Is that correct?

Allan MacDonald^ Yes.

For the most part, Rob.

It's Allan. Let me give you two examples.

We've announced today that we're reducing our guidance around capital.

Our Superior Delivers initiative was one of the early ones, was focused on how we manage our tank inventory and thinking about customers that have left us or inactive customers, our tank inventory in market versus our new tank inventory.

So by changing how we measure and maintain our tank levels, and I don't mean fuel here, I mean the actual physical tanks, we've been able to dramatically increase our tank recycling program.

So that's contributed millions of dollars to savings in capital in this year.

So that's one of the early wins, which is a nice cash benefit.

So there's going to be a run rate reduction in the amount of capital that Superior propane is going to require going forward.

By the same token, we're going to be making some small investments in things like pricing optimization tools, which will be more on the IT side.

I talked a lot about data having -- integrating data analytics and being more data-driven.

We think there's a ton of potential to be unlocked by giving the people in our organization much better tools when they're making decisions about things like pricing.

For example, that will have a capital component.

But in terms of capital, big capital assets, we see that as being a small portion of this.

And it's more on the capital savings side than investment. And Grier, would you say that any differently?

Grier Colter^ I agree with what you said for sure.

Robert Catellier^ Right.

So some investment, obviously but a net benefit to the capital profile then?

Allan MacDonald^ That's right. And we don't see it as a sustained capital requirement in terms of transformation.

It will be some onetime capital investments.

Robert Catellier^ Yes.

I don't want to diminish the significance of the work involved in the operating efforts and skill required to achieve what you're targeting here because I do believe your targets are -- they're not insignificant.

But I wonder what informs a relatively long timeline in achieving your EBITDA gains, understanding that some of this has already been initiated. And maybe another way to look at it is, like what's sort of a path? Is it backloaded?

Or is it sort of a ratable pace of gains? How are you looking at that?

Allan MacDonald^ Yes.

I'm going to let Grier jump in here, but let me start by saying this. That's because it's not a cost reduction exercise.

If we're taking costs out, that's not hard to do. This is about building capabilities.

And because it has a big top line and customer component, when you acquire a customer, obviously you incur the expense in the first year and then you start to see contribution.

So we're thinking about customers in terms of lifetime value.

So for us, the growth element, the capability to demonstrate to all of you that we think we can take material share in this market, we're very confident of that.

We have to build the capability to do that, which is well underway, and then we have to apply it in market, which is starting to happen, but that's going to take time to pay off.

So I would think about it that way that -- and it's not as long a timeframe as you think.

We're saying the run rate in '27.

So that means we're effectively achieving most of the initiatives by the end of '26.

Grier Colter^ Yes.

I was going to say something similar.

I think that is an important point is the work will be done by end of 2026.

But of course, for you to see the full effect of that, you got to wait until 2027.

So it's probably shorter than it appears in those words.

If you look at the split of that incremental at least 50, probably 10 to 20 of that will come in 2025, 20 to 30 that will probably come in 2026 and then the remaining, whatever, 10, depending on how you mix those numbers will be just kind of the full realization of the stuff that you -- were completed by 2026, if that makes any sense. Hopefully, that helps.

Allan MacDonald^ Yes. And we're not stopping at 50.

We still have other opportunities that we're exploring.

So (inaudible) something that.

Robert Catellier^ Yes. I guess I have read the press releases by the end of '27.

So I thought you'd hit your run rate at the end of '27, but it sounds like it's at the end of '26.

So that's a better frame of reference.

Operator^ And our next question comes from the line of Daryl Young from Stifel.

Daryl Young^ With respect to the new Superior Delivers plan, how should we go about measuring your progress on that? Because something that's always been challenging with the Superior story is just the impacts of weather quarter-to-quarter and it really glosses over some of the hard work that's done.

So are there any metrics you plan to report on that kind of show us progress on how you're doing on that plan?

Allan MacDonald^ Yes.

I think that's one of the big challenges that we're tackling in terms of how do we get the right information in your hands so you can see the progress and really delineate it from the normal cyclicality in the business.

We're going to give you more at the Investor Day, Daryl. And by the way, thanks for the question.

I think what you should expect to see is us breaking down in terms of how are we doing with our customers, how are we doing with our costs and how are we doing with our capital.

It's incumbent upon us to give you more insight there.

So more to come on that.

As always, Grier and I have a couple of things that we share in common that we fundamentally believe in.

We're -- when we give you a number, and this is why we've been hesitant to talk about Superior Delivers until now we weren't prepared to give you a number until we had when we could absolutely stand behind. And then when we give you metrics, we want them to be thoughtful.

We have to appreciate the sensitivity of putting that information in the market competitively, but we want to be prepared to continue to report on them.

So as Superior Delivers evolves over the next couple of months, we're going to finalize exactly how we're going to characterize this to you, so you should see more to come on that.

Daryl Young^ Got it. And then it sounds like you're going to be very aggressive on the NCIB very quickly.

If the share price doesn't react the way you maybe hope it does, would there be an argument for launching an SIB?

Grier Colter^ Yes.

Look, it's a tool we have.

It's Grier.

It's a tool.

We know that it's there.

Yes. I think it's something that we'll continue to consider depending on what happens.

So yes, absolutely.

I mean it's -- at certain prices, it becomes more interesting, but let's kind of see how this plays out.

Daryl Young^ Got it.

Allan MacDonald^ It's a good point to mention that the dividend decision, we thought was very necessary because one of the things that we believe our company needed going forward was flexibility in terms of its financial structure.

So that's important not for managing a share price day-to-day, but to be able to give us the freedom to make all the right decisions for the company. And now if you look at the situation that we're going into with available cash flow, it gives us the opportunity to have choice when we're making decisions.

So yes, we're going to support the share price and share buybacks. Yes. We're going to be able to have the freedom to invest in the things that we need to like Superior Delivers and Certarus.

But what we want to do is -- now that we've got this financial flexibility, we're going to hang on to it.

So it's really, really important for us not to get distracted from that.

Daryl Young^ Got it. And then with respect to -- and apologies if I missed this at the opening, but with respect to the CapEx cut, how much of that is truly sustainable going forward? Like is there a catch-up coming, the $40 million reduction this year in the future? And would you give us any insights into where your CapEx budget for Certarus might be next year?

Grier Colter^ Yes.

So it's Grier again.

I think I'll say -- so of that $40 million, $10-ish million is going to be Certarus, probably $30-ish million-ish will be the propane businesses. Part of it is, if everything we identified that led to that $30 million was all we would identify, then I would say that part of it was a resetting of how many trucks, how many locations we need. And then there's a period where you kind of buy less of that stuff to reset to that level and then it probably rebound.

So I think -- so if $30 million was the number, and I think there's more to come.

So I think there's more stuff that we'll look at.

So let's just -- there will be more to come on this.

But no, I don't think that it's permanent. That's on the propane side.

So while I think there's probably more to talk about, if $30 million was all we found, then we might do back $10 million or $15 million of it next year, I'd say. Hopefully, that makes sense.

On the Certarus side, I think we're pretty far through the year.

We're going to execute most of this capital plan for Certarus.

I think we're -- the work we're doing now that's what I said you'll probably be more cautious on Certarus capital.

I think what we're doing is evaluating whether we should be shifting some of the capital to opening up new markets.

We've been pretty focused on driving as much capital into new MSUs and going at existing markets. And we're seeing there's a different supply-demand relationship. And so for us to spend a little more money on opening up new hubs, as we call them, and going at new markets is something we think we should be doing and probably buy fewer MSUs.

I think overall, the capital probably -- there's a good chance that it will come down next year as we kind of look at the returns on MSUs.

As I say, we shift some of the capital. Maybe we look at some ancillary ideas to shift the business to different spaces. This may be a bad example to say power generation, that's maybe not a -- I wouldn't necessarily take that to the bank, but these are the kinds of things that we're thinking about.

But I think probably fewer MSUs, opening up other markets and maybe other ideas to shift a little bit of capital away from the traditional.

Overall, the capital will probably come down.

At this point, I can't give you really more than that because we're doing the work, right? So we'll give much more information, obviously when we set our 2025 guidance, and of course, when we get into the Investor Day and give multiyear numbers.

But generally, I would see the capital in all likelihood will probably be coming down as we get a little bit more cautious and just react to what we're seeing in the market.

Allan MacDonald^ Yes. The only thing I'd add to that, Daryl, it's Allan, is -- look, what we did last year with Certarus, investing in MSUs is absolutely the right thing to do.

We're oversold, tremendous opportunity in the market.

It's the first year that we own the business. And really, when you think about capital, what other options do you have other than MSUs.

Now that we've had the business for a year, you say, okay, now we have more on the table.

So we're looking at expanding our hub presence in the U.S. and Canada, which is going to be really important for us because as we talk, we want to start to bring new markets online and new verticals. And one of the things that we'll continue to inform you guys of and remind you of is you can buy an MSU quickly. You put an order in for an MSU, you can have it in a matter of months now.

You can't open a hub in three months. That takes two years.

So when you start to shift the capital from MSUs to market expansion or investing in other adjacencies, it's not the same spend timeline.

So you might see some ebbs and flows there.

But I don't infer from that, that we're not investing in the business.

It's just the timing of it.

Operator^ And our next question comes from the line of Patrick Kenny from NBF.

Patrick Kenny^ Yes, just a follow-up on the NCIB, and I get the merits of buying back at these levels.

But just given your current leverage is still a full turn above your target, just wondering how the buyback strategy compared to more of a first things first approach to capital allocation just in terms of prioritizing the leverage ratio first, using the cash savings to get the balance sheet down to that 3x target, and then assess the merits of a share buyback at that point versus resetting the dividend back up or accelerating CapEx?

Grier Colter^ Patrick, it's Grier.

Well first, I would say that if we left the dividend intact, we remain confident that we could achieve the growth targets that we set out and the leverage targets that we set out.

So us reducing the dividend and having that cash flow, yes, certainly we could get at that 3x target quicker.

I mean unanimous around the table is that the better use of capital is to be purchasing shares and to not go out a super aggressive delevering strategy.

So that's the view.

But I think it is important that we say that is still part of our strategy.

It is our goal to get to 3x.

We'll obviously lay out a little bit more specificity around that.

But I think that something in early 2027 as a time horizon is probably realistic to get to 3x.

But things are going to evolve and change and the share price will move around our -- there may be a time when we do move away from share repurchases, but certainly that's looking like no time soon.

I think there's lots of runway here where we can buy shares.

But certainly we think that the better priority here is to buy the shares back aggressively at this level. And as I say, we'll still be able to manage the lower [debt] pathway on the original plan that we had.

But maybe at some point, that changes, but that's our priorities at this point.

Allan MacDonald^ Yes.

I think the only thing I would add to that -- Patrick, it's Allan, is we said we want to get to 3x leverage over the next couple, three years. And what we've heard back from a lot of you is we don't see a path to getting there.

Now Grier and I knew for months now that we had a path to getting there, but we were reticent to share the details until we could do it confidently.

But if you think about the things we're announcing today, we're generating and we will be generating incremental EBITDA contribution from propane.

So that's number one. That's going to help.

We're going to be more capital efficient, and we're going to reduce the CapEx that's required to run and grow the propane business. And the dividend decision creates more free cash flow in the organization.

So we see obviously a short-term opportunity with share buybacks or a near-term opportunity.

But this in no way jeopardizes our ability to manage our debt.

I think if anything, we've capably answered that question out there of how do you get from here to there with your current cash flow situation. And it's those three contributing factors that are going to make the difference for us.

Patrick Kenny^ Okay. That's great. And then -- sorry, just on Certarus, I mean the 15% growth rate that we're seeing year-over-year may not be as high as what was hoped, but still obviously quite attractive.

So I get the strategy to be a little bit more cautious on deploying MSUs going forward, just given the competition.

But -- curious if the pullback in allocating capital towards Certarus' growth profile is more returns driven?

Or are you seeing weaker, say, duration or commercial terms with customers? And just trying to get a sense as to what sort of the run rate, growth profile looks for that business going forward?

Grier Colter^ Yes.

I think to be fair, we're -- obviously if you toggle capital down a little bit, the growth will come with it. Higher capital, you're going to generate higher growth, all other things equal.

I think what we've got to do is the work to understand and pretty intricate detail what these returns look like.

I think for me to answer all the questions you just asked, which are really good ones.

I don't have those in front of me right now.

It's the work that we're doing right now as we continue to recalibrate the business.

So I would expect us to have a much more coherent answer when we announce our guidance in terms of why we've made the decisions we've made and what we expect the business to grow at. And obviously we're running different scenarios and flexing it.

So quite frankly, the questions that we're asking ourselves right now.

So that's probably the best I can do for you.

Allan MacDonald^ Yes.

I think -- and if you think about Certarus, you have captive markets surrounding our hubs and demand within those markets. And within the markets, there's demand growth, which is why you've seen what we're doing. And then in new and emerging markets, there's obviously demand.

We're trying to match our MSU fleet with the demand in each of those segments.

So invariably, as we're creating or entering new markets, the demand for MSUs or the potential to utilize MSUs increases.

So they kind of follow in tandem. And what we don't want to do is introduce -- and the MSU fleet introduction is a lot more dynamic. And we talk about capital in annual terms, but we're making these decisions every month.

So what we don't want to do is get out of pace with the expansion in the market and the MSU fleet.

We want to keep those moving in tandem. And invariably, there's going to be sort of an accordion effect where you have years where you do big investment like last year, and then years where you start to rationalize it and you spend more of your capital on market expansion.

So that -- so I don't want you to read too much into the MSU fleet investment in terms of the growth [of] Certarus.

Patrick Kenny^ Okay. Maybe last one, if I could. Just, Allan, you touched on the slew of tuck-in acquisitions before your time as a management team, obviously that were supposed to deliver attractive synergies, but perhaps never materialized.

I'm just wondering if divestitures of some of these underperforming businesses or platforms were contemplated along with this rightsized payout strategy? Or is that something that is still on the table ahead of April Investor Day?

Allan MacDonald^ No. It's a great question. Yes, of course, we looked at divestitures.

We did -- like, this is why it took so long, right? So we're looking at -- I don't know what it was, 45 acquisitions or something we did. And you look at all these assets and you say, okay. Are these markets we want to be in?

Are these assets that are attractive? Is there a higher and better use of these assets? In other words, are they more valuable in terms of their disposition value than they are to us? And I can tell you unequivocally, when we look at our -- and I'm not talking about propane assets here.

But when we look at the propane assets, you kind of separate them, right, because you have the capital assets, bulk plants, trucks, those are -- those come and go.

And then you have the customers. And by and large, we're in the right markets.

We're in markets that have good growth -- they're attractive from a pricing and margin standpoint, and we've got a good customer base.

So we think actually, we've got exactly -- we've got a really good footprint to work with.

I don't see any markets -- we haven't identified any markets that we want to exit at this point.

For us, it's really about, okay, how do we truly get the advantage of scale? Because even though we have scale, we're not taking advantage of it, and we're operating more like a regional propane company than we are like a big national.

So that's what is incumbent upon us.

So my CFO hasn't kicked me yet, but I can tell you there's no dispositions that were contemplated in Superior Delivers.

We've got the right assets.

Operator^ And our next question comes from the line of Aaron MacNeil from TD Cowen.

Aaron MacNeil^ As it relates to Certarus, now that we're essentially halfway through the fourth quarter and getting into that winter season, how do you characterize the competitive dynamic in West Texas, recognizing that you're likely beginning to mobilize some of your assets out of that region and into some other diversified opportunities outside of energy?

Grier Colter^ Aaron, it's Grier.

I'll take a shot at this.

So -- and Allan can kind of fill in the missing pieces.

But yes, the summer market, as we've talked about before, is a little bit different than the winter market.

So you're more reliant certainly on the drilling and completion work in Q2 and Q3 roughly.

Here we are kind of going into the winter season.

We anticipate that the utility work that we've traditionally been able to do, we're just kind of moving stuff over to that right now.

So that's expected to be similar to previous years and frac water heating as an example and mine heating, these other kind of heating or winter kind of [dried] businesses or sectors, we still anticipate those to be as strong as they were in previous years.

So yes, the conditions that we have seen in the oil and gas space are -- I think if you look at what we saw in Q2 and what we said on the Q2 call just that we anticipated that those would continue kind of through Q3, we saw that it was pretty much exactly kind of what we had thought that it would be similar, but maybe not quite as severe as we continue to kind of evolve. And I think the business did a good job kind of evolving.

I think the big question, I think, really is when -- so just to be clear, I think we're expecting to be oversold, busy, solid economics through Q4 and Q1.

I think as we -- the work that we're doing now is how you evolve into the summer season of next year and how you most effectively deploy our leading fleet of MSUs to places where we can get the best return. This is why we're talking about opening up other markets and obviously more to come on that.

But yes, I think what you're asking is, as we move into the winter season, are we expecting it to be kind of similar to previous years? The answer would be yes.

Aaron MacNeil^ I guess just though in real time, like are you seeing the supply-demand equation in that market tightening up today?

Grier Colter^ Are we talking oil and gas? We're talking the other markets to kind of evolve and (inaudible) I think it's -- as I say, it's similar, like what we saw in Q2 was similar to what we saw in Q3.

I mean you see less pressure on the markets, a little bit easier to operate in the winter when you have less supply around.

So...

Allan MacDonald^ Yes. And you think -- it's Allan, about these contracts don't change overnight.

While they're dynamic in terms of the jobs over a 3- or 4-week period, the contracts we entered wouldn't change dramatically. And as Grier said, we're starting to sort of reallocate the fleet for the winter season.

So it's going to reflect that to Grier's point, more of the dynamics of last year, but I can't infer from that what that means for next year.

Aaron MacNeil^ Maybe just building on Daryl's question on Superior Delivers.

I assume 2024 is the baseline year. And then I would also assume that you're using maybe a static weather assumption.

Is that fair?

Allan MacDonald^ That's a great question. And yes, we're -- 2024 is our baseline year and any incremental benefit from weather would be in addition to the numbers that we laid out.

But internally, when we're budgeting, we use a 5-year average for the last 18 months in my tenure here, we've trended way below the 5-year average.

But we're not basing sort of optimism around weather into our numbers. These are real savings.

Yes.

I want to make sure the CFO isn't giving me evil eye here.

Grier Colter^ That said right.

I think like -- obviously it's been -- [degree] days have been not helpful for sure.

I think we've been kind of running lower than averages. And yes, if we had that, that would be a tailwind. And in addition to that, yes, that's what we're talking about on Superior Delivers.

So yes.

Aaron MacNeil^ And then maybe I'll just sneak one more question in. You mentioned being the lowest cost operator. Like who do you believe is the lowest cost operator in the propane business today? And what sort of delta in margins, like a basis point delta in margins, do you think you need to achieve to get to become the lowest cost operator?

Allan MacDonald^ It's a really interesting market to make that kind of comparison to.

If you look at 70% of the industry being private, and the remaining sort of nationals each with their own unique challenges.

So I'm not sure that's necessarily going to be our baseline.

For us, the question that we've been contemplating is what's the benefit of scale? Where does scale give you an advantage.

And we think that we have to be better than other companies when it comes to acquiring customers. Being a low-cost provider also speaks to the profitability it generates.

So we think we need to be able to price better. And I would say that where the economies of scale come in place is really about density and asset utilization.

So when we look at how we're going to structure the business, we need to attract customers that are net -- that actually contribute to lowering our expense as opposed to increasing.

And let me give you an example. You have a customer that you acquire that's on a route that you're already delivering that's within five kilometers of your bulk plant. And you do that really specifically because they disproportionately contribute profit because they incur much lower expense in terms of cost of acquisition and cost to serve.

In another example, you take on a new customer who's 25 kilometers away from the bulk plant on a route that you're not serving today. Those types of decisions are being made every day in this industry.

And using data analytics and better insights, we're going to stop making them. That's where we think lowest cost operations is really going to come in.

It's not necessarily -- we're not looking to pay our drivers differently.

We're looking at being much more efficient and having much more density and building the capabilities to be able to do that every day all across North America.

So that kind of answers your question, I think, but more to come on that, and we'll give you specifics in terms of how we think about the cost base.

Operator^ And our next question comes from the line of Nelson Ng from RBC Capital Markets.

Nelson Ng^ I had a quick question on Superior Delivers.

I know a few years back with the previous management team, there was this Superior Way Forward initiative. And that obviously included some organic growth, some efficiencies, I think adding sensors to tanks and things like that. And I think the EBITDA improvement back then was also a roughly CAD 50 million EBITDA improvement over a smaller base, but I think being realized over a slightly longer period.

So I think when you put the Superior Delivers initiative together, I guess, based on your discussions with the various employees in the propane side, how did the previous initiative, the Superior Way Forward, like what were some of the things that went well and didn't go so well?

And what are you doing differently this time?

Allan MacDonald^ What a good question. Nelson, it's Allan.

Okay.

We took a completely different approach and really didn't look at -- obviously we're familiar with Superior Way Forward.

But we did an examination of the business from the ground up to say where is value created in selling a commodity product that generates a healthy return and should have low churn.

Are we acquiring customers? And by the way, since day 1, we and I have both said organic growth. These assets have to perform better.

So we looked at what the potential was. How are we doing in each of those key elements?

Are we acquiring customers well? Are we retaining them? Are we efficient in terms of our operations? And through the course of that, we've identified substantial opportunities.

So where Superior plus -- where Superior is -- the Superior Way Forward may or may not have gotten the organization is kind of inconsequential.

We looked at the operating model, made the determination that it's dated, that it wasn't data-driven near to the degree that it should be.

We could do better with our availability of insights and the decisions that we're making every day. And when you put those all together, this is a -- this truly is a transformation of the model. When I say we acted like a regional propane company, I can tell you that in parts of our business, pricing is set regionally.

It's set based on competitive -- the interpretation of competitive pricing.

It's not set based on understanding our cost to serve and our lifetime value and the impact it has on churn.

So when you take those apart, you go, what a fantastic opportunity.

We're going to be able to be more targeted where we're acquiring customers, and we can price them so we're optimizing the profitability, but also making sure we're not churning them, all with a view to giving everyone in the organization a clear visibility in what their true costs are, so we can make sure that we're pricing profitably and not leaving money on the table or adding unprofitable customers to our business.

So it's a new day, is what I'm really trying to say and the Superior Way Forward largely, it really didn't factor into our thinking.

We're starting from scratch with the company that we got 18 months ago, not anything that was before that.

And I will tell you, though, last point, a lot of people that were part of the organization in those days are still part of the organization. They're leading this list of 100-plus initiatives that I've been talking about. And the feedback we're getting from them is a tremendous amount of excitement that we're going to be part of this transformation, but they see a company that has a lot of opportunity in front of it. And that's really energizing for the team. And to be honest, I'd say they're energized to the point that I haven't seen in a couple of years.

So we're really excited about where we're at.

Nelson Ng^ That's great color, Allan, and we'll look forward to more details in April.

So just switching gears a bit in terms of Certarus.

Obviously the oil and gas sector is a big focus for everyone.

Can you guys just talk about the competitive dynamics you're seeing in the oil and gas sector? Or for example, are many of the energy service providers, go like, are they all adding -- or are many of them buying MSUs and kind of vertically integrating it and rolling it into their product mix?

Allan MacDonald^ No. We're not -- we haven't seen any change really in terms of the composition of the industry. There were some big players like us that are coming into the segment. There were some small players who continue to operate.

We don't see them aggressively investing CapEx and expanding the fleet. And there were some companies that had this as an adjacency that they were in a related business and added some MSUs.

I will tell you that we're the leader in terms of investing outside of the oil and gas sector and have done the most work there.

Some other companies are looking at adjacent verticals like power generation.

But we're not seeing a big uptake in MSU production by nontraditional competitors at this point.

Nelson Ng^ Okay. And I think last year, there was a supply constraint on MSUs, and I presume, and then they increased their production capacity.

So I presume you're not seeing a supply constraint.

So anyone who wants to buy MSUs can.

But I think what I'm hearing from you is there hasn't been a big increase in MSUs from a -- from the market perspective, right, in terms of you're not just seeing a whole bunch of people buy MSUs and trying to deploy them into the sector?

Allan MacDonald^ No.

I mean if you unwrap that a little bit, are we seeing supply constraints? No. And look, maybe there's not an empty lot of MSUs for sale.

But I mean no, we're not seeing what we've seen in recent years.

I think you'd have to -- if you were getting into the business, you'd have to say, well it's not just buying an MSU and rolling it out into an underserved market that has 200% oversubscription like it was two years ago. You got to get compression. You got to get decompression. You got to build a hub. And if you're going to go into the oil and gas sector, you got to go into a competitive market.

If you're going to go into an emerging market, augmenting power generation, let's say, well now you got a greenfield, you got to build a sales organization.

So you have to turn it into an actual business.

So I think what you're seeing is the early opportunistic entrants are -- have made some money, that's good. They had a small presence in the market, and now they're reviewing that presence.

Now I can't speak on their behalf, but we're not seeing the degree of small market entrants that you would have seen sort of five years ago.

This is -- it's becoming an expanded sort of sector and to enter it is required much more than investing in half a dozen MSUs.

Nelson Ng^ Okay. And then just one last question, still focused on the oil and gas drilling, fracking side. Do you have a sense of what portion of the -- or in terms of the energy mix, how much is natural gas versus diesel? And how do you see that changing? Or how has that changed over the last few years?

And how do you see that changing over the next few years? Because obviously I think it's a bit of a buffer in terms of, I think the natural gas equipment is more efficient and lower cost. And I think your business will fluctuate less than I think the activity that you could see in the market in terms of the ups and downs?

Grier Colter^ Nelson, it's Grier. Just to make sure I understand the question, you're one like, if you look at the frac spreads, you kind of have diesel only you've got dual fuel, which can take diesel or nat gas or you've got kind of the e-frac, which obviously is powered by natural gas, but it's accompanied by power generation assets. Are you kind of asking like of those kind of three categories, how we see them evolving?

Nelson Ng^ Yes. That's right.

So in terms of the -- like obviously it's diesel versus natural gas and some of them use dual, which is a mix of both.

But do you have a sense of how -- like what the, I guess, natural gas share versus diesel share is and how that's changing?

Grier Colter^ Yes.

So I don't have exact numbers in front of me, and maybe we can pick those up. My understanding is that the diesel market is shrinking.

Obviously the economics are quite different on those. And my understanding, and this is since you asked, this is fairly far removed from what I do every day, but the experience for workers, they don't really want to work on diesel equipment, as I understand it.

But my understanding is that the market for diesel equipment is shrinking and it's being taken up by the e-frac and dual fuel space. So it's definitely moving towards nat gas. I don't know the exact growth rate between these.

But yes, that will be -- I think it's -- you have a declining market and two growth markets. And I don't know relative to e-frac, whether the dual fuel is growing faster or not, I don't know. But let us dig in, but that's probably the -- that's maybe what I would say.

I mean -- so obviously we're going after the dual fuel and then we do go at the e-frac market as well. You would do that with either the oil service, the owner of the frac spread would maybe have their own power generation assets or you could partner.

We could partner with a third party to provide the power or they break it up and kind of source it or contract it on a micro basis. But we kind of go at both those spaces. But that is where the growth is, no doubt about it.

Allan MacDonald^ Yes. It's complicated numbers to get, Nelson, but we'll let us look, obviously gas power is on the increase, diesel is on the decline. Is it 70/30 today? Is it 50/50? Let's do some work and come back to you on that. And it's going to be different in Texas than it is in Alberta than it is in Oklahoma. So we'll see if we can get up there.

Operator^ Thank you. And this does conclude the question and answer session of today's program. I'd like to hand the program back to Allan MacDonald, President and CEO, for any further remarks.

Allan MacDonald^ Look. What I'd like to do is thank each and every one of you for dialing into the call today and for listening to what we think is a pivotal and incredibly important time in our history.

We made some big decisions over the course of this quarter. It was great to be able to finally give you some insight into Superior Delivers. We appreciate your patience that it's always hard to do that in an hour-long conversation.

But hopefully, we've given you some insights into how we're thinking about the business for the long term. And I look forward to our next call in February and then seeing you shortly after that for a more fulsome discussion on the Investor Day. So thank you all very, very much.

Operator^ Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.